

THE ROLE OF MULTIPLE INTELLIGENCES ON AUDITOR'S ETHICAL JUDGMENT



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DECLARATION OF ORIGINALITY

By signing this, I, Sheillavieyani Arindaputri, declare that the undergraduate thesis titled: **THE ROLE OF MULTIPLE INTELLIGENCES ON AUDITOR'S ETHICAL JUDGMENT** is my own writing. I hereby declare that in this thesis does not contain the whole or part of another person's writing that I take by copying or imitating in a series of sentences or symbols that show ideas or opinions or thoughts from other authors, which I recognize as if it were my writing, and / or there is no part or all of the writing that I copy, or do I take from someone else's writing without stating the original author's acknowledgment.

This undergraduate thesis is written for the partial requirement to complete Undergraduate Program of Accounting Department and has not been presented in any other occasion before. If I am proven in committing act that contradicts with the previous statements, I bear responsibility for my undergraduate thesis.

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MOTTO AND DEDICATION

“Allah does not burden a soul beyond that it can bear...”

(QS. Al-Baqarah: 286)

“So verily, with the hardship, there is relief...”

(QS. Al-Insyirah: 5)

I dedicated this thesis for:

Allah SWT,

My beloved father,

My beloved family,

And all of my friends

who always support me

ABSTRACT

The main objective of this study is to examine the role of personal factors in influencing auditor's ethical judgment. The personal factors that influence auditor's ethical judgment are multiple types of intelligences, consisting of intellectual, emotional, spiritual, and adversity intelligences.

The sample in this research uses simple random sampling method. The sample in this research is independent auditors who work at public accounting firms in the City of Semarang. The data obtained is analyzed by using SPSS 23rd version. The data processing consists of descriptive statistics, data quality test, classical assumption test, and multiple regressions analysis.

The result of multiple regressions analysis indicates that all independent variables (intellectual, emotional, spiritual, and adversity intelligences) simultaneously influence dependent variable (auditor's ethical judgment). However, there is no significant influence of intellectual intelligence on auditor's ethical judgment partially. While emotional, spiritual, and adversity intelligences have significant influence auditor's ethical judgment partially.

Keywords: Intellectual Intelligence, Emotional Intelligence, Spiritual Intelligence, Adversity Intelligence, Auditor's Ethical Judgment.

ABSTRAK

Tujuan utama dari penelitian ini adalah untuk menguji peran dari faktor personal dalam mempengaruhi pertimbangan etis auditor. Faktor personal yang mempengaruhi pertimbangan etis auditor terdiri dari berbagai jenis kecerdasan, yaitu kecerdasan intelektual, emosional, spiritual, dan adversitas.

Pemilihan sampel dalam penelitian ini menggunakan metode simple random sampling. Sampel dalam penelitian ini adalah auditor independen yang bekerja pada Kantor Akuntan Publik di Kota Semarang. Data yang diperoleh untuk penelitian ini dianalisis menggunakan SPSS versi 23. Pengolahan data mencakup statistik deskriptif, uji kualitas data, uji asumsi klasik, dan analisis regresi berganda.

Hasil dari analisis regresi berganda mengindikasikan bahwa seluruh variabel independen (kecerdasan intelektual, emosional, spiritual, dan adversitas) secara simultan mempengaruhi variabel dependen (pertimbangan etis auditor). Namun, tidak ada pengaruh signifikan dari kecerdasan intelektual terhadap pertimbangan etis auditor secara parsial. Sedangkan kecerdasan emosional, spiritual, dan adversitas berpengaruh signifikan terhadap pertimbangan etis auditor secara parsial.

Kata kunci: kecerdasan intelektual, kecerdasan emosional, kecerdasan spiritual, kecerdasan adversitas, pertimbangan etis auditor.

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CHAPTER I

INTRODUCTION

This chapter comprises four sub-sections which describe background, problem statements, research objectives and contributions, and outline for this thesis. Background part elaborates the reasons concerning the importance of conducted research. Problem statements part concludes the issues raised within in this study. Research objectives and contributions part contain the purposes of this research and the benefits given by the study. The last sub-section explains the structure or outline for this thesis.

1.1 Background

The general purpose of financial statements is to provide information regarding economics activities and conditions of an entity that is useful in making decisions (Kieso et al, 2013). Financial statements are used not only for an entity's internal purposes, but also for external parties such as creditors, government, and investors. Both internal and external parties require the information as considerations in making decisions related to their own business, purposes, and interests. An entity has a need of information related to its financial structure such as assets, liabilities, and equities to make decision related to its operation. Government requires financial information to determine tax that must be paid by the entity. Likewise, creditors and investors require information to consider in entrusting their funds to the entity.

An entity, that prepares financial statements, has all informations of its business and economics real conditions. On the contrary, external parties have limited information and access to those business and economics real conditions. It leads to the possibility that the entity may cover up some of informations or manipulate the financial statements. As a result, it is possible that the informations received by external parties are different from those owned by the entity. The difference of information is called asymmetric information (Tuanakotta, 2015).

In order to reduce the presence of material misstatement, verification process by professional and independent third parties are required. The informations presented are being more objective. Hence, financial statements become more understandable, relevant, and reliable in presenting financial informations of an entity.

According to Arens et al (2012), auditing is defined as “the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria”. The practices of independent audit in Indonesia are conducted by public accountant from public accounting firms listed on Indonesian Institute of Certified Public Accountants (Institut Akuntan Publik Indonesia – IAPI). Public accountant who conducts audit services is known as auditor.

Auditors have an important role in giving opinion regarding the fairness of financial statements. Auditors must assure that the financial statements issued by an entity are in accordance with generally accepted accounting principles.

Auditors issue independent auditor's report as a part of a company's annual report which contains their opinion, known as: unqualified opinion, qualified opinion, adverse opinion, and disclaimer of opinion.

It has become a necessity for auditors to conduct their assessments based on the professional accountant's ethical code. Indonesian Institute of Certified Public Accountants (Institut Akuntan Publik Indonesia – IAPI) had translated and modified the Code of Ethics for Professional Accountants established by International Ethics Standards Boards for Accountants (IESBA). Thus, public accountants must comply with Fundamental Ethics Principles consisting of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

Although Indonesian Institute of Certified Public Accountants (IAPI) had governed the standards, principles, and codes of ethics of public accountants, there were still several cases or scandals of violations done by numerous public accountants. These scandals may occur when implementing audit procedures that are not in accordance with the standards and principles that have been made. It is also possible that the scandal related to ethical misconduct occurs when auditors carry out the duties or make decisions.

In August 2018, The Minister of Finance, Sri Mulyani, gave administrative sanctions to Public Accountants and KAP Satrio Bing Eny & partners (Deloitte Indonesia). The opinion given to financial statements of PT

Sunprima Nusantara Pembiayaan (SNP Finance) did not represent the actual condition of the company. Thus, this brought losses to a lot of parties.

As stated in The Ministry of Finance website (<http://pppk.kemenkeu.go.id>, accessed on September 11, 2018), two public accountants of Deloitte Indonesia had not fully complied with the Auditing Standards – Public Accountants Professional Standards (Standar Profesional Akuntan Publik – SPAP) in carrying out their duties to audit SNP Finance for financial year of 2012 to 2016. They did not fully understand the client's industrial activities, obtained insufficient and inaccurate evidences, as well as performed procedures that were not inadequate in detecting fraud. Moreover, it was also concluded that they lacked of professional skepticism in planning and conducting audit. Sanction given to those two Public Accountants was restriction on providing audit services to financial entities for twelve months, from September 16, 2018 until September 15, 2019.

It was also stated that the quality control system of KAP Satrio Bing Eny & Partners (Deloitte Indonesia) still had weakness. Proper prevention for the familiarity threat had not been made within the public accountant closeness and the client. There was long-term relationship between senior personnel (audit team managers) in the audit engagement on the same client for a long period of time. Therefore, KAP Satrio Bing Eny & Partner (Deloitte Indonesia) was given sanction in the form of recommendation to make policies and procedures within their public accounting firm' control system. KAP Satrio Bing Eny & Partner (Deloitte Indonesia) was required to accomplish and report the implementation no later than February 2, 2019.

In the governmental sector, the scandal committed by auditors related to ethical violations also happened. According to Indonesia Corruption Watch (ICW) report (<http://nasional.kompas.com>, accessed on September 11, 2018), it was stated that since May 2015 to May 2017, there were six bribery cases involving 23 auditors and employees of Badan Pemeriksa Keuangan (BPK). There were three bribery cases in getting unqualified opinion (Wajar Tanpa Pengecualian – WTP), one bribery case in getting qualified opinion (Wajar Dengan Pengecualian – WDP), one bribery case to change BPK findings, and one bribery case to smoothen BPK audit process.

Auditors are given big responsibility by various parties in providing their objective assessment regarding the accuracy and fairness of an entity's financial statements. However, the ethical violations committed by auditors are causing public trust considerably to decline. Those undesirable behaviors are bringing a gap in public expectation of audit services. Consequently, the image of accounting profession is being situated in menaced position as well. As a result, the integrity of auditors in making judgments is being questioned.

Judgment is a process of making a decision or drawing a conclusion from several possible alternative solutions in risky and uncertain conditions (Heyrani, 2016). Besides from having adequate technical skills in accounting, auditing, and financial reporting, it is equally important for auditors to remain objective and ethical in their actions and decisions (Singh and Poduval in Ismail, 2015). Lawrence and Weber (2008) stated that ethics is a conception of right and wrong behavior. Therefore, ethical judgment refers to an individual's personal evaluation

of the degree to which some behavior is ethical or unethical (Sparks and Pan, 2010).

Various ethical judgment models indentified several factors that influence this ethical decision making. However, there were two fundamental factors which were widely agreed to have impacts on ethical judgment, individual and organizational factors (Ismail, 2015). The inherent factor in a person determines the ways of thinking and the direction on focused action taken for dealing in any situations. This research concerns on the factor that attached to individuals regarding the ethicality in making judgments, which are various types of intelligences.

According to Cambridge Dictionary, intelligence is *“the ability to learn, understand, and make judgments or have opinions that are based on reason”*. While Gardner (in Agoes and Ardana, 2014) defined intelligence as *“biopsychological potential in processing information that can be activated in cultural setting to solve problem or create products that are of value in a culture”*. When associated by the term of intelligence, humans have several types of intelligences (multiple intelligence) (Agoes and Ardana, 2014).

Intellectual intelligence, the most commonly known intelligence type, is a cognitive ability possessed by someone to adapt in a complex environment, always change, and influenced by genetic factors (Galton in Zakiah, 2013). Robbins and Judge (2017) explained intellectual intelligence as the ability to do mental activities such as thinking, reasoning, and solving problems. Therefore, it

can be concluded that intellectual intelligence is useful to retain and understand knowledge or problem, and use it in making judgement to take appropriate actions.

Meanwhile the ability to recognize, regulate, and control own emotions as well as comprehend the conditions encountered by people around them, is called emotional intelligence. Robbins and Judge (2017) stated that the main quality that distinguishes the success of people is emotional intelligence. Law et al. (2004) emphasized that people who have higher emotional intelligence can understand their own emotions and control them to the focused action.

Besides intellectual and emotional intelligence, Zohar and Marshall (in Vancea, 2014) defined spiritual intelligence as intelligence that helps people comprehend and solve problems related to meaning and value, place actions and live in meaningful context that are broader and richer, and evaluate ways of life that are more essential than others. Spiritual intelligence is not always related to religion. Spiritual intelligence is useful to interpret the meaning of life and phenomenon occurred in daily routine, respectively people minds and behaviors will be directed at good and right actions.

In addition, the other type of intelligence that will be observed to measure its impact on the auditor's ethical judgment is adversity intelligence. The concept of adversity intelligence was developed by Paul Stoltz in 1997. Adversity intelligence is the ability in which an individual can survive and overcome the

hardship or difficulties encountered. This ability is needed to sustain and direct actions to not act rashly and improper when dealing with difficulties.

Auditors who work in dynamic and complex situations are expected to develop multiple types of intelligences in order to handle situations and problem ethically. Correspondingly, auditor's line of work is related to public trust. As stated by Goleman (in Zakiah, 2013), innate academic ability cannot predict the extent of performance or someone's success. Intellectual intelligence is indeed essential in order to understand and solve the problems related to procedural, codes, and implementation of complex audit works. Emotional intelligence is also needed in order to judge and act ethically and not easily carried away with the situations, since auditors work in a team and deal with clients who have different traits and characters. Spiritual intelligence provides guidance in determining which is good and right, and always judge and act positively in accordance with the rules of ethical values existed in a society and within the profession. In addition, adversity intelligence is necessary possessed by auditor to evaluate and handle ethics related conflicts and problems wisely, since it is undeniable that difficulties and pressures in auditing field of works concur while determining their opinion.

Previous studies had observed the role of emotional intelligence on the ethicality of individual's judgment. Ismail (2015) examined the influence of individual factors on auditors in Malaysia. In the research, Ismail revealed that there was the influence of emotional intelligence on auditor's ethical judgment. This evidence implies that good management of someone's and others' emotion is

an important ability that auditors should have (Ismail, 2015). Likewise, Hopkins and Deepa (2018) discovered the role of emotional intelligence on ethical judgment of MBA students in India and United States of America. This study will observe the emotional intelligence as predictor of auditor's ethical judgment in Indonesia.

The context of another type of intelligences was also observed in several studies. Such as Kallunki et al. (2017) who studied the role of intellectual intelligence on determining the quality of audit services in Sweden. Fauzan (2016) obtained evidence in defining the role of spiritual intelligence on the quality of audit in Indonesia. Moreover, Singh and Sharma (2017) determined the influence of adversity intelligence on occupational stress on managers in India. However, those type of intelligences had yet been found to predict auditor's ethical judgment. Therefore, this study will contribute in observing the intellectual, spiritual, and adversity intelligences as predictors of auditor's ethical judgment in Indonesia.

Based on the brief descriptions of previous studies, the present study will modify the previous research and focus with more concerns on several types of intelligence (intellectual, emotional, spiritual, and adversity intelligence). This study aims to extend prior research in terms of personal factor by using intellectual, emotional, spiritual, and adversity intelligences as predictors of auditor's ethical judgment. This study also proposes to fill the gap in literature through obtaining empirical evidences requiring participation of independent auditors who work at Public Accounting Firms, especially in the City of

Semarang. Based on the previous explanations, this research is titled “*The Role of Multiple Intelligences on Auditor’s Ethical Judgment*”.

1.2 Problem Statements

Financial statements are needed by numerous parties in order to perform their own interest or business. Financial statements are not only used to keep track of the entity operations activities and to conduct evaluations within the entity’s internal side, but also be used for public interests. These reasons make financial statements very essential in providing considerations to make decision. Financial statements must be stated based on the entity’s actual condition and situation, also must be free from inappropriate information. Therefore, an independent third party is required to assess the fairness of financial statements.

Auditors play crucial role in attaining evidence and conducting substantial examination in order to provide opinion regarding the fairness of financial statements. Thus, to maintain the objectivity and professionalism in carrying out the duties, auditor’s behaviors are controlled through various regulations. The existence of regulations is to ensure the firms’ human resources are both technically and ethically competent in order to improve auditor performance and audit quality through a number of control elements (Bennie and Pflugrath, 2009). Therefore, auditing standards and code of ethics were established to govern the field of audit works.

In spite of the fact that auditor must comply with the ethics principles, there were numerous cases revealed where auditors committed ethical violations.

One of the widely known case was the collapse of Arthur Andersen, one of the biggest five public accounting firm in the world. These ethical misconducts are causing public trust considerably to decline and bringing a gap in public expectation on audit services. Thus, the ethicality in auditor's judgment is being questioned.

Individual factor is one of widely agreed fundamental factors to have impacts on ethical judgment (Ismail, 2015). Intelligence, which is possessed by an individual, is defined as the ability to understand, learn, and make judgments or have opinions. In general, this inherent factor in a person determines the ways of thinking and the direction on focused action taken for dealing in any situations. This research concerns on the factor that attached to individuals regarding the ethicality in making judgments, which are multiple types of intelligences consisting of intellectual, emotional, spiritual, and adversity intelligences.

According to the background, the problem statements in this study can be concluded through questions:

1. Does Intellectual Intelligence have influence on Auditor's Ethical Judgment?
2. Does Emotional Intelligence have influence on Auditor's Ethical Judgment?
3. Does Spiritual Intelligence have influence on Auditor's Ethical Judgment?

4. Does Adversity Intelligence have influence on Auditor's Ethical Judgment?

1.3 Research Objectives and Contributions

1.3.1 Research Objectives

According to problem statements, this research attempts to obtain empirical evidences regarding whether Intellectual Intelligence, Emotional Intelligence, Spiritual Intelligence, and Adversity Intelligence have influence on Auditor's Ethical Judgment. Therefore, the objectives can be concluded as follows:

1. To investigate and analyze the influence of Intellectual Intelligence on Auditor's Ethical Judgment,
2. To investigate and analyze the influence of Emotional Intelligence on Auditor's Ethical Judgment,
3. To investigate and analyze the influence of Spiritual Intelligence on Auditor's Ethical Judgment, and
4. To investigate and analyze the influence of Adversity Intelligence on Auditor's Ethical Judgment.

1.3.2 Research Contributions

The result of this study is expected to provide several benefits as follows:

1. Theoretical Aspect

The results of this research are expected to provide more understanding about personal factors (Intellectual, Emotional, Spiritual, and Adversity Intelligence) which affect Auditor's Ethical Judgment and give empirical evidences based on that problems. Furthermore, the results of this study are expected to be an additional material or reference for developing further research regarding ethical judgment in Auditing or Accounting topics.

2. Practical Aspect

The results of this research are expected to bring benefits and contributions to another parties, such as:

- a. Academicians and Researchers, this study is expected to bring better understanding that Emotional Intelligence, Spiritual Intelligence, and Adversity Intelligence also important besides Intellectual Intelligence and broaden the theories development. Moreover, this study proposes in contributing additional reference for further research related to Auditor's Ethical Judgment topic.
- b. Practitioners and Governments, this study is expected to provide evaluation to overcome the issues regarding ethical judgment. This study expected to provide considerations in development to mitigate the risk of improper behavior concerned personal aspects of auditors. In addition, it is essential to improve not only auditor's intellectual intelligence (knowledge), but also auditor's emotional and spiritual

intelligence, along with the adversity intelligence to preserve resilience and sustainability in the field of audit works.

1.4 Research Outline

The writing for this thesis consists of five chapters that will be presented in five chapters, detailed on the discussion outline as follows:

Chapter I Introduction

This chapter consists of four sub-sections which describe background of the study, problem statements, research objectives and contributions, also systematics of the writing for this thesis.

Chapter II Literature Review

This chapter provides the theories which are used as basis for this study and the result of previous studies, theoretical framework, and hypotheses development.

Chapter III Research Methodology

This chapter contains the methodology used in order to conduct the research. Including the definition of the dependent and independent variables also the measurements, population and sample, data type and source, data collection method, and analysis method.

Chapter IV Data Results and Analysis

This chapter explains the descriptions of research objects, data analysis, and interpretation of the results related to the problems.

Chapter V Conclusions

This last chapter contains the conclusions of the research, it also explains the limitations of the study and provides suggestions for further research in the future.